

No securities commission or similar authority in Canada has in any way passed upon the merits of the securities offered hereunder and any representation to the contrary is an offence.

Pennington's Stores Limited

300,000 Shares

(without par value)

The 300,000 shares without par value offered by this prospectus are being purchased from certain shareholders as described under the subheading "Principal and Selling Shareholders" on page 6 of this prospectus. No part of the proceeds of this sale of such 300,000 shares without par value will be received by the Company.

PRICE: \$6 per share

	Price to Public	Underwriter's Commission	Proceeds to Selling Shareholders
Per Share.....	\$6.00	\$.40	\$5.60
Total.....	\$1,800,000	\$120,000	\$1,680,000

There is no market for the shares offered by this prospectus and the price has been determined by negotiation between the Selling Shareholders and the Underwriter.

We, as principals, offer these 300,000 shares without par value in the capital of Pennington's Stores Limited, if, as and when issued and accepted by us, subject to the approval of all legal matters on our behalf by Messrs. Osler, Hoskin & Harcourt, Toronto, and on behalf of the Company and the Selling Shareholders by Messrs. Goodman and Carr, Toronto.

Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time. It is expected that share certificates will be available for delivery on or about May 15, 1969.

Transfer Agent and Registrar:
The Canada Trust Company

Cochran, Murray & Co., Limited

Eighteen King Street East
Toronto, Ontario

MONTREAL HAMILTON KITCHENER LONDON EDMONTON VANCOUVER

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THE COMPANY

Pennington's Stores Limited (the "Company") operates a chain of 20 women's wear stores across Canada.

The Company, the head office and principal offices of which are located at 17 Apex Road, Toronto, Ontario, is a corporation continued under The Corporations Act (Ontario) by Letters Patent of Amalgamation dated April 7, 1969 confirming an amalgamation agreement between Cotton Town Limited and Sandan Limited. Immediately after the amalgamation, the Company acquired the business of a partnership, Pennington's (Western), particulars of which are referred to on page 8 of this prospectus.

The general plan of reorganization brought together as one corporate unit, Cotton Town Limited, which operated 8 Pennington's stores in Metropolitan Toronto, Sandan Limited, which operated 8 Pennington's stores in Ontario, Quebec and Nova Scotia and Pennington's (Western), which operated 4 retail outlets in Western Canada. The Company is now a national retail organization with an estimated current annual sales volume of approximately \$6,000,000. Except where the context otherwise requires, in describing the business and property of the Company, the word "Company" is used to include Cotton Town Limited, Sandan Limited and Pennington's (Western).

CAPITALIZATION

Designation of Security	Authorized	Outstanding as of January 4, 1969	Outstanding as of March 1, 1969	Outstanding after sale of shares offered hereby
DEBT				
Secured bank indebtedness.....	—	\$105,000	\$ 90,502	\$ 90,502
SHARE CAPITAL⁽¹⁾				
Shares without par value ⁽²⁾	3,000,000	1,000,000 shs. (\$1,273,000)	1,000,000 shs. (\$1,273,000)	1,000,000 shs. (\$1,273,000)

- (1) On April 7, 1969, Letters Patent of Amalgamation were issued continuing the Company and providing for an authorized capital of 3,000,000 shares without par value. The authorized and issued shares shown in this table give effect to the issuance of the Letters Patent of Amalgamation and also give effect to the acquisition of the business of Pennington's (Western) as referred to under the subheading "Interest of Management and Others in Material Transactions" on page 8 of this prospectus.
- (2) A stock option plan for an aggregate of 25,000 shares is described in Note 2 (d) of the Notes to the Combined Balance Sheet appearing on page 11 of this prospectus.
- (3) The obligations of the Company with respect to leases of real property are set forth in Notes 6 and 7 of the Notes to the Combined Balance Sheet appearing on page 11 of this prospectus.

THE BUSINESS OF THE COMPANY

The Company is engaged in the retail merchandising of a complete line of women's large size wearing apparel. Individual items handled include: dresses, coats, suits, sportswear, skirts, slacks, beachwear, bathing suits, shorts, lingerie, nightgowns, and hosiery, all in the medium to higher price ranges. The Company's business history dates back to 1938 when William Drevnig and Albert Sherman, two of the directors of the Company, opened a ladies' wear shop at 740 Queen Street East, Toronto. A second store of this type was opened in Toronto at Danforth and Carlaw Avenues in the following year. The first outlet which incorporated the present merchandising concept was opened in 1948 and in the following ten years, six new stores were added. Expansion into Western Canada commenced in 1959 with the opening of a store in Winnipeg. An additional 11 stores were established in the 1961-1968 period, bringing the total number to 19 at the end of 1968. A store in Victoria, British Columbia, was opened in February of 1969.

The Company now operates 20 outlets in six Provinces in Canada with a combined selling area of approximately 83,000 square feet. These stores are located in the following areas:

ONTARIO	—Toronto (8), Hamilton, London, Ottawa
QUEBEC	—Montreal (3), Quebec City
NOVA SCOTIA	—Halifax
MANITOBA	—Winnipeg
ALBERTA	—Calgary, Edmonton
BRITISH COLUMBIA	—Victoria

Company policy has been to operate each location in leased premises in the larger metropolitan shopping centres under the name "Pennington's". In this connection, stores are located in such well known centres as Place Ville Marie and Ville d'Anjou in Metropolitan Montreal, Shopper's World and Yorkdale in Metropolitan Toronto, Polo Park Shopping Centre in Winnipeg and Chinook Shopping Centre in Calgary.

The Company's head office and warehouse are located at 17 Apex Road, Toronto, Ontario, where all accounting, advertising, buying and other administrative functions are conducted. The Company's head office and warehouse facilities originally comprised 6,000 square feet of leased floor space. However, an additional 9,000 square feet of space adjoining the existing premises was recently leased. The warehouse and office areas are presently undergoing a complete re-design and remodelling to integrate the additional facilities.

The Company's business philosophy has been to give the customer styling and quality that is not usually available in highly specialized size ranges. The Company has developed a programme of creating designs, fabrics and styling to its own specifications and many of the fashion wear items merchandised are exclusive to the Company. The Company has representatives in London, Paris, Florence, New York and the Far East who select styles, import fabrics and arrange for the manufacture of these items in sizes not ordinarily available in Canada.

Management

Messrs. William Drevnig and Albert Sherman, the President and Vice-President respectively of the Company, have each had over 30 years' experience in the general merchandising trade. Mr. Saul Armel, the Vice-President and General Manager, has been with the Company 21 years, while Mr. Jack Sherman, the Vice-President in charge of western operations, has 13 years' service. The Company's corporate growth is in large part attributable to its widely experienced management group. The Company has a total of 123 full time employees and a part time staff of more than 100 people.

Growth

The following table indicates the steady increase in sales and earnings which the Company's business has enjoyed in the last five years:

<u>Year</u>	<u>Sales Volume</u>	<u>Net Earnings⁽¹⁾</u>
1964.....	\$3,038,118	\$130,376
1965.....	3,724,529	163,797
1966.....	4,288,259	239,256
1967.....	5,079,439	361,163
1968.....	5,755,172	448,453

(1) Net earnings as shown are pro forma earnings which give effect to adjustments of management salaries, executive pension plan payments and income taxes. Reference is made to Note 2 to the Pro Forma Combined Statement of Earnings on page 13 of this prospectus for full particulars of these adjustments.

Future Development

It is expected that future expansion will be directed toward opening new retail stores, chiefly in shopping centres of fast growing metropolitan areas throughout Canada.

The Company has already leased one new location in Saskatoon, which it expects to open in 1970 and is presently negotiating for new locations in Vancouver and Edmonton.

Property of the Company

The Company is presently tenant in 21 store locations and in addition leases its head office and warehouse premises at 17 Apex Road, Toronto, Ontario, as set out below. In all of the locations, the Company is the owner of the furniture, fixtures and equipment used in connection with the business carried on therein.

	<u>Location</u>	<u>Expiry Date</u>	<u>Renewal Period (if any)</u>
Ontario			
<i>Metropolitan Toronto</i>			
YORKDALE PLAZA, Dufferin & 401, Toronto 19, Ontario.....	February 25, 1974	5 years	
SHOPPERS' WORLD PLAZA, 3003 Danforth Avenue, Toronto, Ontario.....	May 15, 1982	—	
497 Danforth Avenue, Toronto, Ontario.....	September 30, 1970	—	
2850 Dundas Street West, Toronto, Ontario.....	June 30, 1971	5 years	
231 Yonge Street, Toronto, Ontario ⁽¹⁾	July 31, 1972	2 years	
LAWRENCE PLAZA, 3112 Bathurst Street, Toronto, Ontario.....	October 31, 1978	—	
REXDALE PLAZA, 1125 Islington Avenue N., Etobicoke, Ontario.....	September 30, 1978	—	
292½ Yonge Street, Toronto, Ontario ⁽²⁾	February 28, 1972	—	
17 Apex Road, Toronto, Ontario.....	July 31, 1981	—	
<i>Other</i>			
THE CENTRE, Hamilton, Ontario.....	February 28, 1979	—	
WELLINGTON SQUARE, London, Ontario.....	March 14, 1971	—	
ST. LAURENT SHOPPING CENTRE, St. Laurent & Queensway Blvd., Ottawa, Ontario.....	October 3, 1982	10 years	
Nova Scotia			
HALIFAX SHOPPING CENTRE, Halifax, Nova Scotia.....	May 31, 1975	5 years	
Quebec			
PLACE LAURIER, Ste. Foy, Quebec.....	June 1, 1981	—	
DORVAL GARDENS SHOPPING CENTRE, Dorval, Quebec.....	April 30, 1973	—	
PLACE VILLE MARIE, Montreal, Quebec.....	April 30, 1973	—	
7915 Les Galeries D'Anjou, Ville D'Anjou 5, Quebec.....	August 31, 1983	—	
Western Canada			
POLO PARK SHOPPING CENTRE, Winnipeg, Manitoba.....	May 31, 1983	—	
SHOPPERS' PARK-WESTMOUNT, Edmonton, Alberta.....	August 31, 1973	—	
CHINOOK SHOPPING CENTRE, Calgary, Alberta.....	April 30, 1975	10 years	
HILLSIDE SHOPPING CENTRE, 3146 Shelbourne Street, Victoria, British Columbia	April 30, 1979	5 years	
MIDTOWN PLAZA, Saskatoon, Saskatchewan ⁽³⁾	10 years from occupancy	5 years	

NOTES:

- (1) The renewal term of this lease is subject to termination in the event the landlord should wish to demolish the premises.
- (2) This lease can be terminated by either the landlord or the Company upon 180 days prior written notice.
- (3) The Company has not yet commenced business at this location.
- (4) In certain of the leases, the rental for the renewal period is fixed, in others it is subject to determination by arbitration if the parties are unable to agree.
- (5) A majority of the leases provide for rental based on sales.

PLAN OF DISTRIBUTION

Under an agreement dated April 22, 1969 and made between William Drevnig Enterprises Limited, Albert Sherman Management Limited, Harry Sherman, Saul Armel, Layshell Limited and Minerva Holdings Limited, as Vendors, Cochran, Murray & Co., Limited, as Underwriter and the Company, the Vendors agreed to sell and the Underwriter agreed to purchase 300,000 shares of the Company at a price of \$5.60 per share (after commission), subject to compliance with necessary legal formalities and the terms and conditions stated in the Underwriting Agreement. The Underwriting Agreement provides that the Underwriter is committed to take up and pay for all 300,000 shares, if any are taken up. The Underwriting Agreement also provides for the payment by the Vendors of the expenses of the issue.

THE SHARES

The authorized capital of the Company consists of 3,000,000 shares without par value, of which 1,000,000 shares are issued and outstanding as fully paid and non-assessable. Each share without par value in the capital of the Company carries one vote at all meetings of shareholders and all shares rank equally in respect of dividend rights and upon a winding up or dissolution of the Company.

MANAGEMENT AND PRINCIPAL SHAREHOLDERS

Directors and Officers

The full names and home addresses and positions held with the Company by the directors and officers of the Company are set forth below:

SAUL ARMEL.....	18 Suncrest Drive,.....	Director and Treasurer
	Don Mills, Ontario	
DONALD CARR, Q.C.....	35 Avenal Drive,.....	Director
	Toronto, Ontario	
WILLIAM DREVNIG.....	15 Forest Wood Drive,.....	Director and President
	Toronto, Ontario	
ALBERT SHERMAN.....	120 Shelbourne Avenue,.....	Director, Vice-President and Secretary
	Toronto, Ontario	
JACK SHERMAN.....	704 Penthouse Towers,.....	Director
	71 Roslyn Road,	
	Winnipeg, Manitoba	
MARK VANSITTART.....	45 Binscarth Road,.....	Director
	Toronto, Ontario	

During the last five years, William Drevnig, Albert Sherman, Saul Armel and Jack Sherman have been associated with and have acted as directors, officers or managers of the amalgamating companies and Pennington's (Western); Donald Carr has been a partner in the law firm of Messrs. Goodman and Carr (or one of its predecessors Messrs. Cohen, Carr, Casse and Fine); and Mark Vansittart has been a director of Cochran, Murray & Co., Limited.

Remuneration of Directors and Senior Officers

The aggregate direct remuneration paid by the Company and Pennington's (Western) to the directors and senior officers of the Company during the fiscal year ended January 4, 1969 (including management fees paid to a company controlled by one of the directors and senior officers of the Company) was \$133,300 and by the Company during the 8 week period ended March 1, 1969 was \$20,800. The estimated aggregate cost to the Company and Pennington's (Western) during the fiscal year ended January 4, 1969 of all pension benefits to be paid to the directors and senior officers of the Company under the normal pension plan in the event of retirement at normal retirement age was \$4,500.

Principal and Selling Shareholders

The following table and notes thereto set forth all shareholders who have agreed to sell shares pursuant to the Underwriting Agreement referred to under the heading "Plan of Distribution" on page 5 of this prospectus (the "Selling Shareholders") and includes each shareholder of the Company who owns of record or is known to the Company to own beneficially, either directly or indirectly, more than 10% of the shares in the capital of the Company as at March 1, 1969 and also indicates the number of shares which will be held by them on completion of the sale of the shares offered by this prospectus.

Name and Address	Designation of class	Type of ownership	No. of shares owned	Percentage of class	No. of Shares to be sold	Following completion of the sale of the shares offered hereby	
						No. of shares owned	Percentage of class
Saul Armel	Shares without par value	Of record and beneficial	150,000	15.00 %	45,000	105,000	10.50 %
William Drevnig ⁽¹⁾	Shares without par value	Beneficial	390,000	39.00 %	117,000	273,000	27.30 %
Albert Sherman ⁽²⁾	Shares without par value	Beneficial	315,000	31.50 %	94,500	220,500	22.05 %
Harry Sherman 138 Cactus Ave., Willowdale, Ontario	Shares without par value	Of record and beneficial	75,000	7.50 %	22,500	52,500	5.25 %
Jack Sherman ⁽³⁾	Shares without par value	Beneficial	70,000	7.00 %	21,000	49,000	4.90 %
			<u>1,000,000</u>	<u>100.00 %</u>	<u>300,000</u>	<u>700,000</u>	<u>70.00 %</u>

NOTES:

- (1) The shares shown as owned beneficially by William Drevnig are owned as of record and beneficially by William Drevnig Enterprises Limited, a company controlled by William Drevnig, a director and senior officer of the Company. Thus, the shares owned by William Drevnig Enterprises Limited are deemed to be beneficially owned by William Drevnig within the meaning of applicable securities legislation.
- (2) The shares shown as owned beneficially by Albert Sherman are owned as of record and beneficially by Albert Sherman Management Limited as to 245,000 shares and by Layshell Limited as to 70,000 shares. Both Albert Sherman Management Limited and Layshell Limited are companies controlled by Albert Sherman, a director and senior officer of the Company. Thus, the shares owned by Albert Sherman Management Limited and Layshell Limited are deemed to be beneficially owned by Albert Sherman within the meaning of applicable securities legislation.
- (3) The shares shown as owned beneficially by Jack Sherman are owned as of record and beneficially by Minerva Holdings Limited, a company controlled by Jack Sherman, a director and senior officer of the Company. Thus, the shares owned by Minerva Holdings Limited are deemed to be beneficially owned by Jack Sherman within the meaning of applicable securities legislation.
- (4) The information in this table does not reflect the ownership of record by directors of qualifying shares.

Under an agreement dated April 22, 1969, which agreement continues until the death of both Albert Sherman and William Drevnig, William Drevnig, Harry Sherman, Albert Sherman, Jack Sherman, Saul Armel, William Drevnig Enterprises Limited, Albert Sherman Management Limited, Layshell Limited and Minerva Holdings Limited agreed as follows:

1. Proportionate to their ownership of shares in the Company, the parties designated an aggregate of 600,000 shares as "Pooled Shares".
2. Albert Sherman and William Drevnig jointly, or the survivor of them, shall have the right to sell and/or cause to be sold all of the Pooled Shares, provided only that the purchase price per share and the terms of payment are identical for each of the selling parties. However, before any such sale of the Pooled Shares can be made, the Pooled Shares must first be offered to Saul Armel and Jack Sherman jointly, if they are both alive, or the survivor, on the same terms as the proposed sale. If the Pooled Shares are purchased by Saul Armel and Jack Sherman pursuant to such offer, they are to be purchased by the parties proportionately to their then ownership of shares in the Company unless they otherwise agree. Any sale of less than all of the Pooled Shares shall require the unanimous consent of all parties to the agreement.
3. The Pooled Shares shall be voted en bloc so that (a) Albert Sherman, William Drevnig, Jack Sherman and Saul Armel will be elected directors of the Company and (b) the number of directors of the Company shall not be changed without the unanimous consent of all parties to the agreement.
4. The remaining 100,000 shares held by the parties to the agreement shall not be sold to third parties unless first offered to the remaining parties to the agreement on a pro rata basis. To the extent that the said shares so offered are not purchased by the remaining parties, the said shares may be sold to third parties at a price and on terms equal to or better than the price offered to the remaining parties, provided only that such sale is completed within 60 days of the date of the offering to the remaining parties.

5. In the event of the death of any one of Albert Sherman, William Drevnig, Saul Armel, Jack Sherman or Harry Sherman, then the shares formerly owned by the deceased and any shares of the Company deemed to have been beneficially owned by the deceased within the meaning of The Securities Act, 1966 (Ontario), if desired to be sold, must first be offered to the survivors on a pro rata basis. To the extent that the said shares are not purchased by the survivors, then the said shares may be sold to third parties at a price and on terms equal to or better than the price offered to the survivors, provided only that such sale is completed within 60 days of the date of offering to the survivors.

The number and percentage of issued shares of the Company beneficially owned, directly or indirectly, or deemed beneficially owned within the meaning of applicable securities legislation, by all directors and senior officers of the Company as a group on March 1, 1969 was 925,000 shares, representing 92.5 per cent.

Employees' Stock Options

On April 8, 1969 the Board of Directors of the Company adopted an Employees' Stock Option Plan, pursuant to which options to purchase 25,000 shares in the capital of the Company may be granted to bona fide full-time officers and employees of the Company. Under the said plan, the Board of Directors has authorized the granting of options to purchase 3,000 of the said shares to 6 employees of the Company. All of the said options are to be exercisable at \$6.00 per share and are to expire on March 15, 1974. At the date of the authorization of such options, the shares of the Company were not traded in the market; however, the option price is the same as the offering price to the public of the shares offered under this prospectus. No options under such plan have been or may be granted to any of the Selling Shareholders or to any directors or senior officers of the Company.

Interest of Management and Others in Material Transactions

Under an agreement dated March 19, 1969, Cotton Town Limited and Sandan Limited agreed to amalgamate and continue as the Company under Letters Patent of Amalgamation. The shareholders of the two companies entering into the amalgamation and the number of shares received by each such shareholder were; William Drevnig Enterprises Limited—320,000 shares, Albert Sherman Management Limited—245,000 shares, Harry Sherman—75,000 shares and Saul Armel—150,000 shares. The total number of shares issued to these shareholders was 790,000 shares. The total combined retained earnings and paid up capital of these two companies was \$1,125,302 at January 4, 1969.

The Company, under an agreement dated March 19, 1969, purchased from William Drevnig Enterprises Limited, Minerva Holdings Limited and Layshell Limited, all carrying on business under the firm and style of Pennington's (Western), the business of Pennington's (Western) as a going concern as at January 4, 1969. The consideration for the purchase of the said business was \$1,348,346, payable as to \$88,346 by the assumption by the Company of the business liabilities of the partnership at the close of business on January 4, 1969 and the balance by the issuance to each of the three vendors of 70,000 shares of the Company. The book value of the business of Pennington's (Western) acquired by the Company was \$312,911 at January 4, 1969.

The net tangible book value of the outstanding common shares of the Company as at January 4, 1969 was \$1,438,213 or approximately \$1.44 per share, which, on a per share basis, is \$4.56 less than the price of the shares offered by this prospectus.

Under agreements dated April 8, 1969 each of Minerva Holdings Limited, Layshell Limited and William Drevnig Enterprises Limited entered into one year management contracts with the Company providing for a management fee of \$20,800, \$26,000 and \$52,000 respectively. Saul Armel is employed by the Company at an annual salary of \$36,400.

Promoters

William Drevnig, Albert Sherman, Jack Sherman and Saul Armel took the initiative in reorganizing the Company and therefore may be considered as promoters within the meaning of applicable securities legislation.

MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business, and aside from the leases referred to in this prospectus, the only material contracts entered into by the Company within the two years prior to the date of this prospectus are the following:

- (a) Underwriting agreement dated April 22, 1969 between the Company, William Drevnig Enterprises Limited, Albert Sherman Management Limited, Harry Sherman, Saul Armel, Layshell Limited, Minerva Holdings Limited and Cochran, Murray & Co., Limited relating to the sale and purchase of 300,000 shares of the Company referred to on page 5 of this prospectus under the heading "Plan of Distribution."
- (b) Agreement dated December 31, 1968 between the Company (by its predecessor corporations) and certain other parties wherein the parties agreed to the general plan of reorganization and the offer of shares of the Company to the public as contemplated in this prospectus.
- (c) Agreement dated March 19, 1969 pursuant to which the Company acquired as at January 4, 1969, the business of Pennington's (Western) referred to on page 8 of this prospectus under the subheading "Interest of Management and Others in Material Transactions".
- (d) Amalgamation Agreement dated March 19, 1969 between the predecessor corporations of the Company wherein the parties agreed to continue as the Company.
- (e) Management agreements dated April 8, 1969, between the Company and Minerva Holdings Limited, the Company and Layshell Limited and the Company and William Drevnig Enterprises Limited, referred to under the subheading "Interest of Management and Others in Material Transactions" on page 8 of this prospectus.

The agreements referred to in subparagraphs (b) and (c) above were ratified by the Company on April 8, 1969.

Copies of the foregoing contracts may be examined at the head office of the Company during the period of primary distribution of the securities offered hereby and for a period of thirty (30) days thereafter.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of the Company are Pape, Strom, Sherman & Lavine, Chartered Accountants, 220 Bay Street, Toronto, Ontario.

The transfer agent and registrar with respect to the shares without par value of the Company is The Canada Trust Company at its principal office located in Toronto.

COTTON TOWN LIMITED, SANDAN LIMITED, and PENNINGTON'S (WESTERN)

**Combined Balance Sheet
and
PENNINGTON'S STORES LIMITED
Pro Forma Balance Sheet
as at January 4, 1969**

ASSETS

	Combined (Note 1)	Pro Forma (Note 2)
Current:		
Cash.....	\$ 540,735	\$ 540,735
Accounts receivable (less allowance for doubtful accounts).....	110,087	110,087
Inventories—at net realizable value less normal profit margin.....	1,253,426	1,253,426
Prepaid expenses.....	36,912	36,912
	<u>\$1,941,160</u>	<u>\$1,941,160</u>
Investments and miscellaneous assets—at cost.....	\$ 34,368	\$ 34,368
Fixed—at cost		
Furniture, fixtures and leasehold improvements.....	\$ 707,094	\$ 707,094
Motor vehicles.....	29,515	29,515
	<u>\$ 736,609</u>	<u>\$ 736,609</u>
Less—Accumulated depreciation.....	411,757	411,757
	<u>\$ 324,852</u>	<u>\$ 324,852</u>
Other		
Excess of cost over book value of business acquired.....	\$ —	\$ 947,089
TOTAL ASSETS.....	<u><u>\$2,300,380</u></u>	<u><u>\$3,247,469</u></u>

LIABILITIES and SHAREHOLDERS' EQUITY

Current liabilities:		
Bankers' advances (Note 3).....	\$ 105,000	\$ 105,000
Accounts payable and accrued liabilities.....	467,483	467,483
Income taxes payable.....	228,516	228,516
Sundry taxes payable.....	55,440	55,440
TOTAL LIABILITIES.....	<u>\$ 856,439</u>	<u>\$ 856,439</u>
Deferred income taxes (Note 4).....	<u>\$ 5,728</u>	<u>\$ 5,728</u>
Shareholders' equity		
Capital stock		
Combined balance sheet—issued shares.....	\$ 13,000	
Pro forma balance sheet:		
Authorized:		
3,000,000 Shares without par value		
Issued:		
1,000,000 Shares.....		\$1,273,000
Retained earnings (Note 5).....	1,425,213	1,112,302
	<u>\$1,438,213</u>	<u>\$2,385,302</u>
	<u><u>\$2,300,380</u></u>	<u><u>\$3,247,469</u></u>

Approved on behalf of the Board of Directors

(Signed) WILLIAM DREVNIG, Director

(Signed) S. ARMEL, Director

COTTON TOWN LIMITED, SANDAN LIMITED, and PENNINGTON'S (WESTERN)

Notes to Combined Balance Sheet and PENNINGTON'S STORES LIMITED Notes to Pro Forma Balance Sheet as at January 4, 1969

1. Companies Included:

The combined balance sheet includes, after the elimination of all inter-company transactions, the accounts of Cotton Town Limited, Sandan Limited, and Pennington's (Western), a partnership.

2. Pro Forma Balance Sheet:

The pro forma balance sheet gives effect to the following transactions as if they had occurred on January 4, 1969:

- (a) The issue of Letters Patent of Amalgamation dated April 7, 1969, confirming an Amalgamation Agreement between Cotton Town Limited and Sandan Limited, whereby these companies are amalgamated and continue as Pennington's Stores Limited.
- (b) The acquisition by Pennington's Stores Limited of the business carried on by Pennington's (Western) for \$1,348,346 payable as to \$88,346 by the assumption of the business liabilities of the partnership at the close of business on January 4, 1969, and the balance by the issuance to the vendors of 210,000 shares of the Company. The book value of the business of Pennington's (Western) was \$312,911 as at January 4, 1969.
- (c) The issue of 1,000,000 shares, without par value, of Pennington's Stores Limited as a result of the transactions referred to in (a) and (b) above as follows:

	Shareholders' equity as per combined balance sheet	Excess of cost over book value of business acquired	Total of shareholders' equity of companies amalgamated and cost of business acquired	Shares issued
Companies amalgamated:				
Cotton Town Limited.....	\$ 684,539	\$ —	\$ 684,539	340,000
Sandan Limited.....	440,763	—	440,763	450,000
Business acquired:				
Pennington's (Western), a partnership	312,911	947,089	1,260,000	210,000
Total.....	<u>\$1,438,213</u>	<u>\$947,089</u>	<u>\$2,385,302</u>	<u>1,000,000</u>

- (d) The reserving of 25,000 shares in the capital stock of Pennington's Stores Limited pursuant to an employees' stock option plan adopted on April 8, 1969 and the granting of options to employees, pursuant to the said plan, to purchase 3,000 shares. These options are exercisable at \$6.00 per share and expire on March 15, 1974.

3. Bankers' Advances:

Bankers' advances are secured by a registered general assignment of book debts.

4. Deferred Income Taxes:

Commencing with the fiscal year ended January 4, 1969, the companies have claimed for income tax purposes capital cost allowances which exceed depreciation recorded in the accounts. As a result of this change, income taxes for the current year include deferred taxes of \$5,728 which represent taxes which may be payable in future years when capital cost allowances available for tax purposes are less than depreciation reflected in the accounts.

5. Retained Earnings:

The difference between the combined retained earnings and the pro forma retained earnings, amounting to \$312,911, represents the transfer to capital stock of the amount of the book value of the net assets of Pennington's (Western), which book value was included in the combined retained earnings as at January 4, 1969.

6. Long Term Leases:

Long term leases entered into by the companies extend into the year 1983. The majority of these leases provide for payment to the lessor of a percentage of sales. Minimum rentals payable under leases in effect as at January 4, 1969 for the period 1969 to 1973 inclusive aggregate approximately \$1,661,400, exclusive of rentals payable under an executed lease for a store location to be opened in 1970 in Saskatoon, Saskatchewan. The term of this lease is for ten years from occupancy, with a minimum annual rental of \$25,600.

Rentals paid under long term leases during the fiscal year ended January 4, 1969 amounted to \$443,757.

7. Subsequent Events:

- (a) Under agreements dated April 8, 1969 each of Minerva Holdings Limited, Layshell Limited and William Drevnig Enterprises Limited entered into one year management contracts with the Company providing for a management fee of \$20,800, \$26,000 and \$52,000 respectively.
- (b) Subsequent to January 4, 1969 the companies entered into long term leasing agreements for the rental of additional warehouse premises in Toronto and a store location in Victoria, B.C. Minimum rentals payable under these leases for the period 1969 to 1973 inclusive aggregate approximately \$144,700.

COTTON TOWN LIMITED, SANDAN LIMITED, and PENNINGTON'S (WESTERN)

**Combined Statement of Earnings (Note 1)
For Five (5) years ended January 4, 1969**

	Year ended January 4, 1969	Year ended December 31			
		1967	1966	1965	1964
SALES.....	\$5,755,172	\$5,079,439	\$4,288,259	\$3,724,529	\$3,038,118
Earnings from operations before the fol- lowing charges.....	\$1,126,005	\$ 920,595	\$ 663,603	\$ 508,713	\$ 429,286
Management remuneration.....	133,300	331,860	217,542	163,920	123,375
Executive pension plan past service and level annual contributions.	4,500	22,674	105,017	117,060	98,560
Depreciation.....	51,833	53,211	46,225	48,866	42,614
Income taxes (Note 3).....	383,435	156,822	75,352	45,911	50,296
NET EARNINGS.....	<u>\$ 552,937</u>	<u>\$ 356,028</u>	<u>\$ 219,467</u>	<u>\$ 132,956</u>	<u>\$ 114,441</u>

**Pro Forma Combined Statement of Earnings (Note 2)
For Five (5) years ended January 4, 1969**

	Year ended January 4, 1969	Year ended December 31			
		1967	1966	1965	1964
Earnings from operations before the fol- lowing charges:.....	\$1,126,005	\$ 920,595	\$ 663,603	\$ 508,713	\$ 429,286
Management remuneration.....	135,200	135,200	135,200	135,200	135,200
Executive pension plan contribu- tions.....	4,500	4,500	4,500	4,500	4,500
Depreciation.....	51,833	53,211	46,225	48,866	42,614
Income taxes.....	486,019	366,521	238,422	156,350	116,596
PRO FORMA NET EARNINGS.....	<u>\$ 448,453</u>	<u>\$ 361,163</u>	<u>\$ 239,256</u>	<u>\$ 163,797</u>	<u>\$ 130,376</u>

**Combined Statement of Retained Earnings
and**

**Pro Forma Combined Statement of Retained Earnings
For Five (5) years ended January 4, 1969**

	Year ended January 4, 1969	Year ended December 31			
		1967	1966	1965	1964
RETAINED EARNINGS—beginning of year	\$ 978,986	\$ 772,564	\$ 574,951	\$ 467,379	\$ 355,551
Net earnings for year.....	552,937	356,028	219,467	132,956	114,441
Adjustment of cash surrender value of life insurance policies.....	8,290	—	—	—	—
	<u>\$1,540,213</u>	<u>\$1,128,592</u>	<u>\$ 794,418</u>	<u>\$ 600,335</u>	<u>\$ 469,992</u>
Partners' withdrawals (Note 4).....	100,000	149,606	21,854	25,384	2,613
Goodwill written off.....	15,000	—	—	—	—
RETAINED EARNINGS—end of year.....	<u>\$1,425,213</u>	<u>\$ 978,986</u>	<u>\$ 772,564</u>	<u>\$ 574,951</u>	<u>\$ 467,379</u>
Pro forma adjustment (Note 5): Transfer to capital stock.....	312,911				
PRO FORMA RETAINED EARNINGS— January 4, 1969.....	<u>\$1,112,302</u>				

COTTON TOWN LIMITED, SANDAN LIMITED, and PENNINGTON'S (WESTERN)

Notes to Combined Statements of Earnings and Retained Earnings and Pro Forma Combined Statements of Earnings and Retained Earnings For Five (5) years ended January 4, 1969

1. Companies Included:

The combined statements of earnings and retained earnings and the pro forma combined statements of earnings and retained earnings include, after the elimination of all inter-company transactions, the earnings of the following companies:

Cotton Town Limited Sandan Limited Pennington's (Western), a partnership

2. Pro Forma Combined Statement of Earnings:

The pro forma combined statement of earnings gives effect to the following adjustments:

- (a) The restatement of management remuneration from the historical basis to payments under present arrangements aggregating \$135,200 per annum; and
- (b) The restatement of past service and level annual pension payments from the historical basis to the present level annual cost totalling \$4,500; and
- (c) The restatement of income taxes from the historical basis to reflect the income taxes which would have been payable if—
 - (i) the transactions contemplated in (a) and (b) above had been in effect for the five years, and
 - (ii) the earnings (as adjusted) had been the taxable income of one Canadian corporation.

3. Income Taxes:

Income taxes as reflected in the combined statement of earnings do not include income taxes in respect of the earnings of Pennington's (Western), a partnership, since income taxes on its earnings were payable by the partners. The earnings before income taxes of Pennington's (Western) for the five years were as follows:

December 31, 1964.....	\$ 30,189	December 31, 1967.....	\$174,329
December 31, 1965.....	52,223	January 4, 1969.....	179,741
December 31, 1966.....	119,601		

4. Partners' Withdrawals:

These amounts represent withdrawals during the period by the partners of Pennington's (Western).

5. Pro Forma Adjustment:

This gives effect to the purchase by the Company of those assets pertaining to the business of Pennington's (Western), the net book value of which was reflected in the combined retained earnings as at January 4, 1969.

6. Change in Accounting Practice:

During the fiscal year ended January 4, 1969, the companies changed their basis of providing depreciation on furniture, fixtures and leasehold improvements from the reducing balance method at maximum rates as permitted under the Income Tax Act to the straight line method. This change resulted in a decrease of \$17,218 in the depreciation provision for the year and an increase in earnings after taxes of \$8,265.

